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1850 M Street, N.W., 11th Floor
Washington, D.C. 20036
Telephone: (202) 828-7452

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Richard D. Lawson
Director
Federal Regulatory Relations
United Telephone Companies

EX PARTE

April 9, 1993

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Donna R. Searcy, Secretary
Federal Communications Commission
1919 M. Street, N.W., Room 222
Washington, DC 20554

RE: In the Matter of Local Exchange Carrier
Line Information Database, CC Docket No. 92-24

Dear Ms. Searcy,

The Common Carrier Bureau's Tariff Division has requested that the United Telephone companies (United) evaluate a methodology for developing direct cost factors used in calculating new service rates. Attached is United's second response to this request. United asks that this material be made part of the record in the matter described above.

Sincerely,

Richard D. Lawson
Director -
Federal Regulatory Relations

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Richard D. Lawson
Director
Federal Regulatory Relations
United Telephone Companies

April 9, 1993

Mary L. Brown
Tariff Division
Federal Communications Commission
1919 M. Street, N.W., Room 518
Washington, DC 20554

RE: In the Matter of Local Exchange Carrier
Line Information Database, CC Docket No. 92-24

Dear Ms. Brown,

This letter further responds to the Tariff Division's ongoing review of the United Telephone companies' (United) Tariff Transmittal No. 287 which created new LIDB Access and CCS/SS7 Interconnection rates and is the subject of the investigation referenced above.

On March 19, 1993, United offered an assessment of a Tariff Division methodology for calculating direct cost factors applicable to LIDB and CCS/SS7 services. In short, United disagreed with the Tariff Division's use of ARMIS total traffic sensitive data to calculate a cost-to-investment ratio. As United explained, the more relevant investments and costs are those associated with plant types used to provide specific services. United further explained that its use of plant specific investments and costs, as opposed to total traffic sensitive data, results in the differences between United's direct cost factors and rates and the Tariff Division's illustrative factor and rates. Exhibit A demonstrates why these differences occur by illustrating the following:

1. As explained in the Description and Justification supporting Tariff Transmittal No. 287, United's direct cost factors are the sums of plant specific maintenance factors, plant specific depreciation factors, the Commission prescribed 11.25% rate of return, and a tax factor. 1990 investments and costs for all United Telephone companies were used to calculate the factors.

2. The maintenance expense factor specific to switching plant for all United companies (Columns 3) is 22% greater than the maintenance expense factor for total traffic sensitive plant for the Tier 1 United companies. The maintenance expense factor specific to circuit plant for all United companies (Column 4) is 40% less that the maintenance expense factor for total traffic sensitive plant for the Tier 1 United companies (Column 2).

3. The depreciation expense factor specific to switching plant for all United companies (Column 3) is 17% less than the depreciation expense factor for total traffic sensitive plant for Tier 1 United companies. The depreciation expense factor specific to circuit plant for all United companies (Column 4) is 9% greater than the corresponding factor for total traffic sensitive plant for the Tier 1 United companies (Column 2).

4. The maintenance expense factor specific to switching equipment is more than two times greater than the same factor for circuit equipment, and the depreciation expense factor for circuit equipment is 22% greater than the depreciation factor for switching equipment.

Exhibit A also shows that United used a recognized formula for calculating federal income taxes that produces a tax factor that is more than three times the federal income tax factor calculated with the Tariff Division's methodology. Income tax is

United has also found that the differences between United's direct cost factors and rates and the Tariff Division's illustrative factor and rates result, in part, from United's use of data for all the United companies, as opposed to the Tariff Division's use of filed ARMIS data that captures only the Tier 1 United companies. A comparison of the DIRECT COST FACTOR-LOWER LIMT in Columns 1 and 2 of Exhibit A illustrates this point.

Finally, Attachment B illustrates how United applied plant specific direct cost factors to LIDB Access and CCS/SS7 Interconnection services. United used two direct cost factors -- one associated with switching equipment and one associated with circuit equipment -- in developing its LIDB and CCS/SS7 rates. Column 1 of Attachment B lists the LIDB Access and CCS/SS7 Interconnection services. Column 2 lists the plant components required to provide each of the services. Column 3 classifies the plant components for each service as being either predominately switching or predominately circuit. Column 4 shows the appropriate plant specific direct cost factor.

In summary, a cost-to-investment ratio may produce a valid direct cost factor, but the investments and expenses used to develop the ratio are critical. The direct cost factors must reflect the expenses that underly specific, forward looking plant investments used to provide new services. The direct cost factors must also include return and taxes that are applicable to the incremental investment made to provide new services. Furthermore, as local carriers like United further refine their costing and rate-making skills, the Tariff Division should not preclude the use of other methodologies to identify even more precisely the investments and expenses associated with new services.

If you have questions about this matter, please contact me at the address or telephone number shown above.

Sincerely,

Richard D. Lawson
Director -
Federal Regulatory Relations

Attachments

cc: Judy Argentieri
Christopher Frentrup
Mark Uretsky
Gregory Vogt

Derivation of Carry Charges Specific to Switching and Circuit Plant Types
(See Footnotes on Page 2)

Row	United Telephone	1991 Total United System	1991 Total United Tier 1	1990 * Total United System Switching Carrying Charge Components		1990** Total United System Circuit Carrying Charge Components	
		Column 1	Column 2	Column 3		Column 4	
1	Investment – COE + IOT + CWF	579,264,339	482,756,798	1,510,957,682		1,010,017,281	
2	Investment – GSF	130,630,539	103,330,718				
3	Total (Ln 1 + Ln 2)	709,894,878	586,087,516				
4	COE+IOT+CWF Factor (Ln 1 / Ln 3)	0.81599	0.82369				
5	GSF Factor (Ln 2 / Ln 3)	0.18401	0.17631				
6	Net Investment – COE+IOT+CWF	281,145,792	237,113,513				
7	Net Investment – GSF	70,142,368	56,859,730				
8	Total Net Investment (Ln 6 + 7)	351,288,160	293,973,243				
9	Net Investment Factor – COE+IOT+CWF	0.80033	0.80658				
10	Net Investment Factor – GSF	0.19967	0.19342				
11	Plant Specific Expense – COE+IOT+CWF	30,840,686	24,636,344	94,242,201		30,961,361	
12	Plant Specific Expense – GSF	23,085,441	17,953,449				
	Ratio (Ln 11/Ln 1)	0.053241	0.051033	0.062372	Maint. Exp./Investment	0.030654	Maint. Exp./Investment
13	Depreciation/Amortization Expense						

FOOTNOTES

* **1990 Total United System Switching Carrying Charge Components:**
1990 data for all United Telephone Companies was used to calculate annual carrying charges. Since the development of LIDB and CCS/SS7 rates, this data has been updated to reflect revised depreciation rates and FCC Rules changes. As a result, the factors calculated here deviate slightly from the factors shown in the Description and Justification accompanying Transmittal No. 287.

** **1990 Total United System Circuit Carrying Charge Components:**
In reviewing the development of the direct cost factor for circuit plant, United discovered that the wrong maintenance expense factor was included at the time LIDB and CCS/SS7 rates were developed. The switching maintenance expense factor was inadvertently used for both switching and circuit plant. The correct maintenance expense factor specific to circuit plant (.030654) is shown here. When the Commission issues a final order in this investigation, United will file a tariff revision to lower its CCS/SS7 Interconnection rates affected by this error. Direct refunds will be made to customers who have purchased these services at the currently tariffed rates.

CLASSIFICATION OF PLANT COSTS

COLUMN 1	COLUMN 2	COLUMN 3	COLUMN 4
LIDB Access Service	**Direct Capital Cost Components**	**Plant Type**	**Plant Specific Direct Cost Factor**
LIDB Query Transport	• STP Switching • STP Exit Port • STP to SCP Links and STP Term. Equipment	Switching	.3036
LIDB Query	• SCP Link Term. Equipment • SCP Equipment for LIDB Functionality • SCP to DBAC Links	Switching	.3036
CCS/SS7 Interconnection Service	**Direct Capital Cost Components**	**Plant Type**	**Plant Specific Direct Cost Factor**
STP Port	• STP Port Card & RTU Fee • Cluster Controller & RTU Fee • Digital Patch Panel • 56 Kbps CSU/DSU	Switching	.3036

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